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Even Pessimists Feel Optimistic About the American Economy

By NELSON D. SCHWARTZ

For more than a decade, the economy has failed to grow the way it once did. Unemployment has not stayed this high, this long, since the 1930s.

But could the New Normal, as this long economic slog has been called, be growing old?

That is the surprising new view of a number of economists in academia and on Wall Street, who are now predicting something the United States has not experienced in years: healthier, more lasting growth.

The improving outlook is one reason the stock market has risen so sharply this year, even if street-level evidence for a turnaround, like strong job growth and income gains, has been scant so far.

A prominent convert to this emerging belief is Tyler Cowen, an economics professor at George Mason University near Washington and author of "The Great Stagnation," a 2011 best seller, who has gone from doomsayer to a decidedly more optimistic perspective.

He is not predicting an imminent resurgence. Like most academic economists, Mr. Cowen focuses on the next quarter-century rather than the next quarter. But new technologies like artificial intelligence and online education, increased domestic energy production and slowing growth in the cost of health care have prompted Mr. Cowen to reappraise the country's prospects.

"It's better than it looked," Mr. Cowen said. "Technological progress comes in batches and it's just a little more rapid than it looked two years ago." His next book, "Average Is Over: Powering America Beyond the Age of the Great Stagnation," is due out in September.

Certainly, there are significant headwinds that will not abate anytime soon, including an aging population, government austerity, the worst income inequality in nearly a century and more than four million long-term unemployed workers.

These and other forces prompted some leading economists, led by Robert J. Gordon of Northwestern, to conclude not long ago that the arc of American economic growth for centuries was over, to be replaced by decades of stagnation. Productivity might grow steadily, Professor Gordon argued, but the benefits will not flow to most Americans.

Other analysts are challenging that perspective, which they said was colored, in part, by the severe downturn that hit the global economy more than five years ago. And some of them now see a brighter outlook right around the corner, not just far into the future.

Two widely followed economic forecasters, Morgan Stanley and IHS Global Insight, have both increased their estimates for growth in recent days.

“It’s been a long time coming,” said NarimanBehravesh, chief economist at IHS. “There is more optimism about the U.S. and in particular about the second half of this year and 2014. Three months ago, we wouldn’t have come to that same conclusion.”

Indeed, a number of forecasters are now predicting that the expansion, which began in 2009 and has remained subpar ever since, might prove to be far more durable than the typical five-to-six-year growth cycle, in part because of the absence of the traditional boom, then bust pattern.

The optimistic view is hardly universal and there have been premature proclamations of better days before, most famously the “green shoots” spotted by Ben S. Bernanke, the chairman of the Federal Reserve, in 2009.

Whether or not the economy is poised to grow faster in the months ahead will be the central question when Federal Reserve policy makers meet this week, with more volatility expected on Wall Street as traders look for any sign the Fed is ready to taper back its huge stimulus efforts.

Whatever the Fed’s conclusion, many analysts insist the more upbeat view is justified this time.

In particular, Mr.Behravesh and other economists said, the economy has shown greater resilience than expected in the face of tax increases and spending cuts in Washington. As the impact from this fiscal tightening eases, the overall growth rate should pick up.

Mr.Behravesh now expects the annual growth rate to rise to 2.9 percent in 2014 and 3.5 percent in 2015. If he’s right, it would mark the fastest annual growth since 2005, when the economy expanded by 3.1 percent. It is also well above the 2 percent rise in output the economy has averaged over the last three years.

The nonpartisan Congressional Budget Office also sees relatively fast growth of 3.4 percent next year, and 3.6 percent between 2015 and 2018.

A few other private economists are even more bullish. Jim Glassman, senior economist at JP Morgan Chase’s commercial bank, estimates the economy could expand by 4 percent in both 2014 and 2015. If that were to come to pass, it would be the strongest back-to-back annual growth since the late 1990s.

“I think 2014 will be the real deal,” Mr. Glassman said. “If we get to that level, which I feel pretty confident about, economists will say it’s about time.”

Mr. Cowen, who is also an occasional contributor to the Sunday Business section of The New York Times, is more skeptical about a short-term takeoff, focusing instead on what he sees as a brightening, longer-term picture of the United States economy.

The recent surge in domestic oil and gas production signals “the start of a new era of cheap energy,” he said, while less expensive online education programs could open the door to millions of people who have been priced out of more traditional academics.

At the same time, Mr. Cowen said, he now expects subtler improvements in the country’s economic well-being that will not necessarily be reflected in statistics like gross domestic product, but will be significant nonetheless.

For example, slower growth in the cost of health care will be a boon for the government and businesses, but will actually subtract from reported economic activity. “It’s like the music industry,” he said. “Revenues are lower at record companies but the experience for listeners is better.”

Martin Neil Baily, a senior fellow at the Brookings Institution and a former chairman of the Council of Economic Advisers under President Clinton, said he has always been skeptical of Professor Gordon’s long-term view but has recently become more hopeful about the short-term as well.

“I don’t buy the historical wave theory,” he said. “He’s right that there are headwinds like slowing population growth but the tech revolution is still very much happening.”

In terms of the immediate future, “I thought there was a distinct possibility that spending cuts and tax increases might stall the economy,” he said. “I’m more optimistic now because we seem to be weathering it. There is a sense that we are going to get through this.”

The current debate has turned out to be one of the most important ones in years among economists, who half-jokingly refer to their field as the dismal science. Some well-known experts challenge the new optimists. J. Bradford DeLong, an economics professor at University of California at Berkeley, sees few signs of a rebound, adding that Washington’s austerity policies only “dig the hole we are in deeper.” The percentage of workers in the labor force remains at lows not seen for a quarter-century.

“The great stagnation will end for a lot of people but not everyone,” Mr. Cowen said. “I think there will be great breakthroughs but the distribution of those gains will go to owners of capital and intellectual property.”

How big will these breakthroughs really be? That issue is crucial for Professor Gordon of Northwestern, arguably the most influential pessimist among academic economists today.

While computers and the Internet hold revolutionary possibilities, he said, they will not affect living standards or productivity the way the innovations of the last 150 years did, citing developments like railroads, electrification, indoor plumbing and the like.

“Electronics has already had its revolution with the Internet, the personal computer and e-commerce,” he said. “Advances in the future will doubtlessly be impressive, but the real impact of the electronic revolutions has already occurred.”

Whether pessimists or optimists, economists do not have a great track record of predicting the future. Many feared the Great Depression might return after World War II ended, only to see the economy boom in the postwar era. Similarly, few foresaw the financial crisis of 2008 or the depth of the most recent recession.

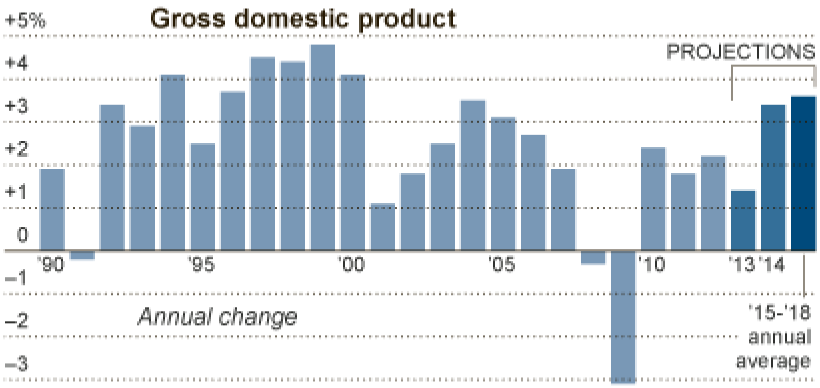
Mr. Bernanke said that the near-term outlook remains murky but nonetheless put himself firmly in the optimists' camp in a commencement speech last month at Bard College at Simon's Rock in Massachusetts.

Acknowledging Mr. Gordon's point that living standards have not advanced since the 1960s the way they did in the previous 50-year period, he nevertheless echoed Mr. Cowen's newfound optimism about innovation.

"Both humanity's capacity to innovate and the incentives to innovate," he said, "are greater today than at any other time in history."

Higher Expectations

After a long period of subpar performance, punctuated by the recession, some analysts are now predicting the return of a more robust economy.



Sources: Bureau of Economic Analysis; Congressional Budget Office THE NEW YORK TIMES